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SUBJECT: NEPAL RESTRICTS WHEAT EXPORTS TO PROTECT CONSUMERS

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Summary

¶11. (U) In June 4 meetings with the Secretary of the Ministry of Commerce and Supplies and the Secretary of the Ministry of Agriculture, Emboffs urged the Government of Nepal (GON) to remove the existing export ban on wheat and rice. A representative from the World Bank joined in the meeting with the Ministry of Commerce to reinforce the message that export restrictions would only exacerbate food insecurity. In addition, Emboffs informed the GON officials about the President's Global Food Security Initiative and the U.S. approach to addressing the food crisis. Emboffs stressed the need to increase market access for agricultural goods and to eliminate barriers to trade in agricultural biotechnology products. Both Secretaries explained that the GON put the export ban in place in response to India's ban on the export of rice and wheat and rising global prices in order to ensure food security in Nepal. The GON officials acknowledged that long-term food security in Nepal was dependent upon increased production, availability and accessibility. The current export restrictions, they implied, were a temporary measure. The market's response to the export restrictions on both sides of the open India-Nepal border has been a significant increase in the smuggling of rice and other food grains. In spite of the GON's projections that rice production will increase by 17 percent this year, the World Food Program's reports on food scarcity in many remote areas are disturbing. Crop failures and rising market prices could quickly plunge at risk families into an acute food crisis.

GON Urged To Lift Export Ban

¶12. (U) At a June 4 meeting with Mr. Purusottam Ojha, Secretary of the Ministry of Commerce and Supplies, Pol/Econ Chief, Emboff and Mr. Abhishek Basnet, Research Analyst with the World Bank Nepal office, urged the Government of Nepal (GON) to remove the existing export ban on wheat and rice. The group explained that export restrictions provided less incentive to farmers to increase production, encouraged smuggling, restricted supply and put additional pressure on prices in the world market. At a separate meeting on June 4 with Mr. Tek Bahadur Thapa, Secretary of the Ministry of Agriculture, Pol/Econ Chief and Emboff repeated the message

that export restrictions would only exacerbate food shortages and prices increases. At both meeting Emboffs informed the GON Officials about the President's Global Food Security Initiative and the U.S. approach to addressing the food crisis. Emboffs stressed the need for a robust agricultural agreement through the Doha Round which would increase market access for agricultural goods and for the elimination of barriers to trade in agricultural biotechnology products.

Commerce and Agriculture Secretaries Defend Export Ban

¶13. (U) Secretary Ojha stated that the export ban was put in place in response to India's ban on the export of rice and wheat and rising global prices -- emphasizing that the ban was necessary to ensure food security in Nepal. Ojha acknowledged that the export ban would reduce the farmer's profits, but explained that the GON was doing its best to strike a balance in between the needs of the consumers and the welfare of the farmers. Ojha further explained that only big farmers would benefit from wheat exports and the consumers and small farmers were ultimately more vulnerable. Secretary Thapa explained that prices in Nepal followed the Indian market, but since Indian farmers enjoyed subsidized inputs, Nepal farmers operated at a disadvantage. Thapa estimated that the costs of production in Nepal were three times higher than in India. Accordingly, when India banned exports, the prices in Nepal went up and the consumers were the most affected. To provide some relief to consumers, the GON responded by putting an export ban on wheat and rice in

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an attempt to balance competing needs. Thapa noted that Nepal's food exports were limited, would be consumed quickly and would ultimately have little effect on the market.

Export Ban Temporary - Long-term Need Increase Production

¶14. (U) Ojha speculated that the Indian wheat ban would be lifted soon but restrictions on rice were likely to continue to be a problem. Overall, Ojha emphasized that long-term food security in Nepal was dependent upon availability and accessibility. He explained that the production centers were fragmented and the movement of surplus food into deficit areas was restricted by the country's difficult terrain and limited transportation alternatives. He explained that the GON was focused on developing programs to increase food security in remote areas through the development of local crops, access to seeds and fertilizer and new processing methods to reduce spoilage. He also emphasized that it was important to decrease dependence on rice as the primary staple. Secretary Thapa emphasized that the lack of effective irrigation systems was the biggest barrier to increased production but that farmers also needed seed security and access to markets. Programs were needed to address vulnerability and if implemented locally, Thapa noted, these projects would provide much needed jobs.

GON Providing Food and Subsidies in Remote Areas

¶15. (U) Ojha reported that the Nepal Food Corporation (NFC) currently had stocks of approximately 20,000 metric tons and was currently selling off rice in the Kathmandu valley in order to keep prices stable. In several remote areas, Ojha acknowledged there was an acute food shortage and explained that the NFC was delivering subsidized rice to these areas. Ojha explained that rice production was expected to increase by 17 percent in 2008, so food security would improve in the fall after the harvest. Agriculture Secretary Thapa, confirmed that crop production was expected to be good this year, so after the harvest Nepal would be relatively food secure.

Smugglers Benefit From Export Restrictions

¶ 16. (U) The Nepali market is closely tied to the Indian market and with the open 1,751 kilometer India-Nepal border, restrictions in either market are historically very difficult to enforce. It should not be surprising then that soaring food prices and export restrictions have introduced a new commodity into the illegal trade along the India-Nepal border. Smuggling syndicates are now reportedly carrying large quantities of food grains from India into Nepal. While difficult to estimate the actual volume of food grains being smuggled from India to Nepal, estimates run into several hundred tonnes a month.

Current Food Security Alert

¶ 17. (U) Secretary Oha's and Thapa's projections for a good harvest aside, the World Food Program continues to report that the current food security situation for many communities living in the Mid and Far-West is very worrying. More than 300,000 people are facing a precarious food situation due to significant localized crop failures of between 20-70 percent.

For many of the affected, this is the fifth consecutive season of significantly poor crop yields, leaving many with few coping mechanisms as they enter the traditional three-month lean period. With failing crops people become more dependent on markets for food. The high cost of food items could quickly plunge affected families into severe food insecurity as their cash resources will be too small to purchase the food they need.

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